



KANTER FINANCIAL FORENSICS, LLC

November 6, 2014

The Honorable Todd Meier Mayor
And the Members of the Town Council
Town of Addison Texas
5300 Belt Line Road
Dallas, Texas 75254-7606

RE: Addendum #2 to the Engagement Letter Dated April 23, 2014

Mayor Meier and Members of the Town Council:

As a result of the work performed pursuant to our engagement letter of April 23, 2014 and Addendum #1 dated May 23, 2014 to the Town of Addison, we recommend certain additional tasks set forth below as a supplement to our April 23, 2014 engagement. Except as modified by this letter agreement, all aspects of the April 23, 2014 Engagement Letter remain in full force and effect.

In our *First Set of Recommendations* dated July 11, 2014, we identified several areas where policy, procedure and/or process changes should be implemented. It is our understanding that many of those recommendations have now been adopted. Accordingly, we propose to perform an analysis of the status of each of the recommendations contained in our *First Set of Recommendations* dated July 11, 2014.

We understand that a physical inventory of the Town's assets is preliminarily scheduled for January of 2015. Once the inventory is complete, we propose to perform an analysis of the reconciliation (to be performed by Town staff) of the Town's physical inventory to the books and records of the Town. We will work collaboratively with the Town Manager, Chief Financial Officer and members of the Town's Staff to attempt to locate (in the books and records) the original purchases of significant or sensitive assets and tie purchases to the physical inventory.

As stated in our previous reports, we identified various areas where significant weaknesses in internal control and oversight exist. We will not know if reported corrective actions are in place until we complete the activities identified above. However, we have identified at least three areas where we believe additional analysis should be undertaken. The first two areas are the Special Events Department and the Courts Department.

Additionally, we recommend that all charges from two vendors be evaluated as to compliance with the terms of those vendor's bids/contracts. We understand, however, that one of those vendors is terminating its relationship with the Town and ceasing operations. Accordingly, the Town's resources can best be spent on, as a preliminary step, the other vendor relationship. This can be accomplished by using a temporary employee, retained and paid for by the Town, to work at the direction of KFF to data enter and accumulate relevant invoices and contract information for that vendor. KFF will then evaluate the vendor's billings to the Town and report its findings to the Council. This initial work will become a basis for our recommendations for future retrospective bid and contract evaluations.

Our proposed fees for each of the above-described consulting services are as follows:

| | |
|---|-----------|
| Analysis of Courts, Special Events & 1 Vendor | \$ 26,000 |
| Physical Inventory Reconciliation Consulting | \$ 8,850 |
| Status Update – First Set of Recommendations | \$ 15,000 |

Our work will be performed in phases, with the Analysis of Courts, Special Events and 1 Vendor phase beginning as soon as practicable. The remaining phases will be performed upon the Town's completion of its physical inventory. The above estimates include a written report and presentation to the Council as well as coordination meetings with the Finance Committee. We will perform our work at the following hourly rates as stated in our Engagement Letter of April 23, 2014:

| | |
|-------------------|-------|
| Managing Director | \$295 |
| All Others | \$195 |

We anticipate that the work described above can be completed at a cost to the Town of an amount not to exceed \$49,850 plus out-of-pocket expenses. However, in the event that significant differences arise as a result of the yet to be performed physical inventory, we reserve the right to modify the scope and cost of our work as it relates to that portion of the above fee estimate.

If this meets with your approval, please sign and date one copy of this letter in the space provided.

Very truly yours,



Larry Kanter, CPA/CFF, CFE
Managing Director

Agreed and Accepted

Todd Meier, Mayor
Town of Addison
Authorized Representative

Date